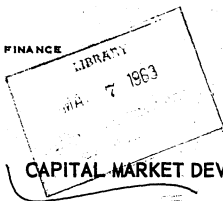


H. 13
No. 104

May 3, 1963.



- I. France
- II. Nine Charts on Financial Markets Abroad

I. France: Money and Capital Markets, January-April, 1963

In an attempt to slow down the pace of credit expansion, the French authorities took several important restrictive measures in the monetary field in the period under review. In other major developments, official reserve gains were exceptionally large, and serious labor disputes in the public sector were settled on terms that could aggravate upward price pressures for some publicly-produced goods and services.

At the end of February, the Bank of France took steps to slow the expansion of bank credit by roughly one-third the rate of increase in 1962 by (1) raising the banks' required minimum liquidity ratio, and (2) requesting the banks to limit the increase in credits (with some exceptions) to 12 per cent in the next twelve months. In the previous three years, money supply, fed largely by bank credit, had increased 16 to 18 per cent annually.

On April 10, additional measures were adopted to (1) channel funds away from the Treasury bill and towards the long-term capital market; (2) discourage inflows of short-term capital from abroad; and (3) enhance the Bank of France's power to check credit expansion.

French official reserves rose \$387 million in the January-March quarter, and about \$100 million more in the first three weeks of April, despite a less favorable trade performance. Official reserves were swelled in January-February by favorable changes in leads and lags in trade payments linked to reduced confidence in the pound sterling, and French commercial banks borrowed heavily abroad in January. The franc has continued to be at its ceiling of 20.41 U.S. cents against the dollar.

The large reserve gains, coupled with seasonal factors, made for a further easing of the Paris money market. The rise in the bank's compulsory liquidity ratio (effective March 31) froze excess liquidity but had no significant tightening effect on short-term money rates. In other markets, stock prices declined, long-term bond yields changed little, and gold coin prices rose more than 1 per cent in the period under review. New security issues in the final quarter of 1962 brought the year's total to 12 per cent more than in 1961.

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The 5-week strike in the nationalized coal mines ended in early April, and was followed by new contracts for the railroad, gas, and electricity workers as well. Over the next year, wages will be increased by 12-1/2 per cent for the miners and apparently by at least 7 to 8 per cent for workers in the other three nationalized industries; the increases reflect the restoration of these wage rates to equality with those in the private sector. It will probably not be known until the time of the supplementary budget appropriations this summer whether the resulting higher costs in these industries will be covered by raising the prices of the goods and services affected, by increased taxes, or in some other way. Finance Minister is opposed to a higher budget deficit.

Monetary policy. At the end of February, the Bank of France instituted two measures to slow down the expansion in the money supply by moderating the growth of bank credit. The rates of expansion in both have been very rapid in recent years. The new moves are designed to cut down credit expansion by roughly one-third from the 1962 rate.

In the first place, the banks' required minimum liquidity ratio was raised from 32 to 35 per cent effective March 31.^{1/} The liquidity ratio was first introduced in January 1961 at 30 per cent and was raised to 32 per cent in February 1962. The present increase has not had any immediate impact on bank lending because bank liquidity has been high, but it will cut down on the ability of the banks to lend from accruing resources.

The second measure, a new device in France, greatly resembles the gentlemen's agreements on credit restraint reached in Switzerland in the past year. The Bank of France has requested each bank to limit to 12 per cent the increase in bank credit over the twelve months from February 28. This restriction does not apply to the financing of exports (which of late have not been increasing) or of equipment goods (demand for which has been falling).

No important changes occurred in the French monetary situation in the weeks and months preceding these steps, other than exceptional increases in official reserves in January-February. The new measures reflect the concern that a continuation of the growth of money supply at the rapid rates experienced in the past three years would be undesirable. The supply of money and quasi-money increased 16 per cent in 1960, 17 per cent in 1961, and 18 per cent in 1962.^{2/} Such increases were between two and three times larger than the corresponding increases in GNP, in current as well as constant prices. Until late 1961, these increases, while large, served to rebuild the ratio between money supply and GNP to the 1956 level, from which it has been reduced by the sharp 1957-58 price inflation. But in 1962, the ratio rose substantially above the 1956 level.

^{1/} The percentage of total deposit liabilities held in cash, deposits with the Bank of France and the Treasury, Treasury bills, medium-term paper, export paper, and paper for financing the grain trade.

^{2/} For money supply alone, the increases in these three years were 11, 15 and 18 per cent.

Bank credit to the economy has been the main source of the increases in money supply, accounting for 64 to 71 per cent of the increase in each of the past three years. Yearly expansion rates for this credit ranged between 18 and 20 per cent. The expansion of credit financed from the banks' own resources has been even more rapid. Because the balance of payments surpluses provided banks with sufficient funds, there was very little increase in Bank of France rediscounts in 1961 or 1962.

A second package of monetary measures was announced April 10. To encourage a greater flow of savings into the long-term capital market, the authorities reduced by 1/4 percentage point the rates on public Treasury bills. These are non-marketable instruments with maturities ranging from 3 months to 5 years, and are a highly popular form of personal savings. Rates on commercial bank time deposits and bons de caisse (deposit certificates) were also cut, in most cases by 1/4 percentage point.

In addition, steps were taken to restrict the availability of financial Treasury bills held by banks and a number of other financial institutions. While most of these bills are held to satisfy legal requirements, some have been held in excess of the required amounts. A new arrangement for marketing such bills was announced, similar to the one introduced in Italy last November. Under the new system, the private banks will continue to obtain on a "tap" basis at fixed rates a special issue for their required holdings (currently 15 per cent of deposits). Otherwise, financial Treasury bills will be available only by regular auction on the 5th, 15th and 25th of each month; the first auction was scheduled for April 25. The "tap rate" on compulsory holdings is 3-1/8 per cent on the vast majority (i.e., 2-year bills), these rates having been reduced 1/8 percentage point at the end of February.

Furthermore, the payment of interest on foreign-owned bank accounts in French francs was prohibited in order to discourage the inflow of foreign funds. Finally, to arm the Bank of France with further powers to restrain credit, the Bank was given authority to raise the minimum liquidity ratio of the private banks from its present 35 per cent ceiling to 38 per cent whenever it deems such a raise necessary.

Money market. The Paris money market turned still easier in the first quarter. Partly, this was a reflection of a seasonal slowing of bank credit expansion, and consequently small cash drain. In addition, the liquidity of the market was much enhanced by the exceptional increases in the Bank of France's gold and foreign exchange reserves, which for the quarter approximated F. 2.02 billion compared with F. 1.40 billion in the same period last year (see Table 1). Bank of France credit to the Treasury also increased. Consequently, banks and other financial institutions reduced by F. 2.07 billion their accommodation at the Bank of France.

However, Bank of France credit to the market could not be drawn down sufficiently fast to prevent money market rates from falling well below the 3-1/2 per cent rediscount rate on several occasions. As shown in Table 2, day-to-day money rates dropped as low as 2-1/2 per cent in both mid-January and mid-March. Since French banks have continuous and heavy resort to Bank of France accommodation, it is unusual to find money rates against private paper significantly below the cost of rediscounting inland commercial bills at the Bank of France.

According to Bank of France reports, the raising of the liquidity ratio effective March 31 froze virtually all of the banks' hitherto-excess holdings of cash and rediscountable paper, but the tightening of the market caused by that action was fleeting. Day-to-day money against private paper commanded 6 per cent on April 1, but the rate fell to 3-1/2 - 3-5/8 per cent on the 4th and 3-1/8 - 3-1/2 per cent on the 18th as the market eased again.

Table 1. France: Changes in Selected Bank of France Accounts, 1962-63
(In billions of francs; no sign = increase)

	1/4/62 to 4/5/62	4/5/62 to 7/5/62	7/5/62 to 10/4/62	10/4/62 to 1/3/63	1/3/63 to 4/4/63
Note circulation	0.57	2.06	1.43	1.68	0.55
Credit to Treasury	-1.26	2.29	0.66	-0.69	0.87
Gold and foreign assets	1.40	1.66	0.05	0.46	2.02
Rediscounts and advances	-1.11	-0.91	0.58	2.30	-2.96
Holdings of money-market paper	1.01	-0.89	0.50	-0.94	0.89

Source: Bank of France

Table 2. France: Short-Term Interest Rates, 1962-63

Tap rate on 2-year financial Treasury bills

1962: 3.38 to March 12; 3.25 thereafter
1963: 3.25 to February 25; 3.125 thereafter

<u>Day-to-day money</u>	<u>Private paper</u>	<u>Treasury bills</u>
<u>1962-monthly averages</u>		
January	3.51	3.40
February	3.56	3.39
March	3.65	3.47
April	3.93	3.64
<u>1963-dates</u>		
January 3	3.38 - 3.50	3.38
17	2.50 - 3.25	2.50 - 3.50
31	3.50	3.38
February 14	3.00 - 3.38	3.38
28	3.50	3.38
March 15	2.50 - 2.88	2.50 - 2.88
28	3.38 - 3.63	3.38 - 3.50
April 4	3.50 - 3.63	3.38
11	3.38 - 3.50	3.13
18	3.13 - 3.50	2.75 - 3.38

Source: INSEE and Bank of France

Bond market. The long decline in French bond yields came to an end in early 1963. Yields as a whole followed an essentially flat trend through mid-April, with different groups exhibiting inconsistent movements. While yields on corporates and public sector bonds tended to fall only very slightly further, the yields on the 5 per cent rente of 1949 rose 19 basis points between December 28 and April 11. (See Table 3.)

Table 3. France: Long-Term Bond Yields, 1962-63

	<u>Redeemable bonds</u>		<u>5 per cent per- petual rente</u>
	<u>Public sector</u>	<u>Corporate</u>	
<u>1962-end of month</u>			
March	5.74	6.42	5.12
June	5.56	6.23	5.06
September	5.50	6.10	4.96
December	5.46	6.05	4.86
<u>1963-dates</u>			
January 4	5.54	6.05	4.90
17	5.47	6.07	a/ 5.22
February 1	5.42	6.01	a/ 4.87
15	5.40	6.03	4.92
March 1	5.49	6.09	4.98
15	5.51	6.04	5.03
29	5.43	6.02	5.05
April 5	5.43	6.02	5.05
11	5.43	6.03	5.05

a/ Over the years there has regularly been a sharp rise in the computed yield on this issue in mid-January with the approach of the February 1 coupon date, followed by a drop in early February.

Sources: Bank of France (redeemable bonds); IBRD (rente).

Stock market. Prices on the Paris Bourse were marked down in the period under review, and on April 19 the general index stood 6.3 per cent below the 1962 close. (See Table 4.)

Several factors affected stock prices adversely in January and February. Prime Minister Pompidou's assertion in mid-January that French stocks were overvalued and President de Gaulle's January 14 press conference (which generated fears that France would be "isolated" from her allies) sent the market down 3 per cent between January 11 and 18. Another decline of nearly 5 per cent occurred between February 15 and March 1, in response to both the application of credit restrictions and a Socialist-sponsored bill in Parliament to nationalize the investment banks and consumer credit companies. A recovery of 2 per cent in the two weeks ending March 29 probably reflected expectation of some inflationary repercussions of a coal strike settlement. In April prices again retreated, partly in response to rumors (which were officially denied) of imposition of a capital gains tax.

Table 4. France: Weekly Index of Stock Prices, 1962-63
(December 29, 1961 = 100)

<u>1962</u>			<u>1963</u>	
High (Apr. 27)	114.8		March	1 96.3
Low (Nov. 9)	96.3			8 96.5
December 28	103.6			15 96.7
				22 97.4
				29 98.8
<u>1963</u>			April	5 98.0
January	4 104.6			11 98.1
	11 103.9			19 97.1
	18 100.7			
	25 101.7			
February	1 102.6			
	8 102.1			
	15 101.0			
	22 98.3			

Source: INSEE

Gold market. The price of the Napoleon in late April was 1.2 per cent higher than at the close of 1962. The main upward movement corresponded with the labor unrest in March and accompanying fears of possible inflationary consequences of public sector wage increases; the price rose from F. 40.8 on February 27 to F. 41.3 on March 31. A further increase occurred in early April (apparently related to fears of tax changes) but this was cancelled by a subsequent decline, bringing the price to F. 41.2 on April 25. (See Table 5.)

Table 5. France: Price of Napoleon Gold Coin, 1962-63
(In francs)

<u>1962</u>		
High (Oct. 24)		43.50
Low (Apr. 27)		39.20
December 28		40.70
<u>1963</u>		
February	27	40.80
March	31	41.30
April	18	41.50
	25	41.20

New issues. The volume of net new issues of securities rebounded sharply in the fourth quarter of 1962. Although most of the rise was seasonal, flotations rose above the year-ago level by 33 per cent. As a result, for the full year 1962 new issues exceeded the 1961 volume by 12 per cent. (See Table 6.)

The competitive sector (private corporations as well as competing nationalized corporations such as Renault) raised 9 per cent more on the French capital market in 1962 than in 1961. Stock issues were up 23 per cent, despite the diminished enthusiasm for outstanding stocks after the spring of last year.

In contrast, new bond issues by these firms were down 13 per cent from 1961, even though corporate bond yields declined throughout the year. Yields in 1962 averaged less than in 1961 by 12 basis points for ordinary (classique) bonds and by 20 basis points in the case of indexed and participating bonds. New bond issues in France are regulated by the Treasury, which may have restricted corporate bond flotations in 1962 in order to make available more funds for investment in bonds of the public sector.

New bond issues of the public credit institutions were up 19 per cent in 1962. The main borrowers in this category were the Crédit Foncier de France (mortgage loans, construction credits, and loans to local governments); the Crédit National (medium-term loans to industry); and the Caisse Nationale de Crédit Agricole (agricultural credit). The first two of these institutions obtain most of their resources through public bond issues.

National enterprises floated 20 per cent more bonds in 1962 than the year before. Resort to the market was had by Electricité de France, the National Railways, and Charbonnages de France (coal mines). Gaz de France did not borrow last year, and the P.T.T. (Mail and Telecommunication Service) was out of the market for the fourth consecutive year.

For the fourth year in succession, the Treasury did not issue any bonds on the capital market in 1962.

Table 6. France: Net New Security Issues, 1961-62
(In millions of francs)

	1961			1962		
	<u>I-III</u>	<u>IV</u>	<u>Year</u>	<u>I-III</u>	<u>IV</u>	<u>Year</u>
Public authorities	240	--	240	160	--	160
Public credit institutions	1,250	350	1,600	1,450	450	1,900
National enterprises	1,150	520	1,670	1,300	710	2,010
Competitive sector	3,780	1,550	5,330	3,760	2,050	5,810
Stocks	2,340	660	3,000	2,640	1,060	3,700
Bonds	1,270	820	2,090	910	910	1,820
Participations	170	70	240	210	80	290

Source: Conseil National du Crédit

Foreign trade. In the first quarter, France's trade balance with foreign countries continued to be substantially less favorable than a year earlier. A deficit of \$165 million (shipments basis, imports c.i.f.) was recorded, compared with a surplus of \$48 million in January-March 1962. (See Table 7.) For the quarter, exports were up 2.4 per cent and imports up 17.5 per cent from a year earlier. On the import side, the monthly figures showed year-to-year increases of 26 per cent in January, only 5 per cent in February, and 22 per cent in March. Import volume in February-March was affected by heavier imports of fuels in March caused by the French strikes, and perhaps as well by a shift of imports from the U.S. from February into March caused by the U.S. dock strike.

Table 7. France: Trade with Foreign Countries, 1961-63
(In millions of dollars; monthly average on month)

	<u>Imports c.i.f.</u>	<u>Exports</u>	<u>Balance</u>
<u>1961</u>			
Qtr. I	425	426	+ 1
II	450	450	--
III	391	426	+35
IV	463	476	+13
<u>1962</u>	426	455	+29
January	472	469	- 3
February	516	538	+22
March	479	496	+17
Qtr. II	457	449	- 8
III	538	528	-10
IV			
<u>1963</u>			
January	535	475	--60
February	495	481	-14
March	632	541	-91

International reserves. In January-February of this year, France's official reserves rose even faster than in the comparable weeks of 1962. Gains amounted to \$134 million in January and \$145 million in February, compared with increases (adjusted for special official transactions) of \$60 million and \$45 million in the corresponding months last year. But the French balance of payments surplus did not increase correspondingly. Favorable changes in leads and lags in trade payments probably accounted for about one-half of the rise in official reserves in January-February. These changes reflected the desire of French residents to speed up repatriation of sterling export proceeds, following President de Gaulle's mid-January press conference and the subsequent breakdown of the U.K.-Common Market negotiations. In addition, in January the net foreign assets of the French commercial banks decreased \$137 million, apparently to finance imports, with consequent benefit to the official reserves. Thus, compared with previous surpluses, the French balance of payments in January appears to have been statistically in equilibrium, and actually in deficit if changes in leads and lags are adjusted out.

In March, official reserves rose \$104 million. This compares with a gain in March 1962 of \$156 million after adjustment for special official transactions only (or \$116 million if the \$40 million bond issue in the U.S. by a French pipeline company in March 1962 is eliminated). For the three weeks ended April 18, Bank of France statements indicate a rise in reserves of \$110 million. Of this amount, \$33 million was due to the final installment of a \$100 million payment from West Germany to indemnify French victims of Nazism.

Europe and British Commonwealth Section.

Chart 1

INTEREST ARBITRAGE, UNITED STATES / CANADA

Thursday figures Per cent per annum

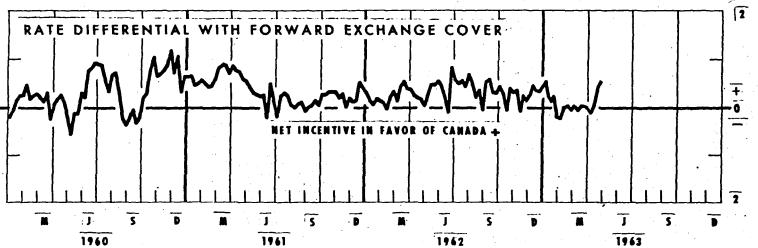
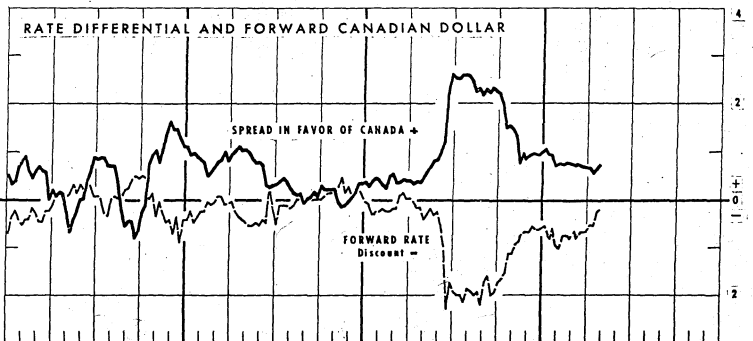
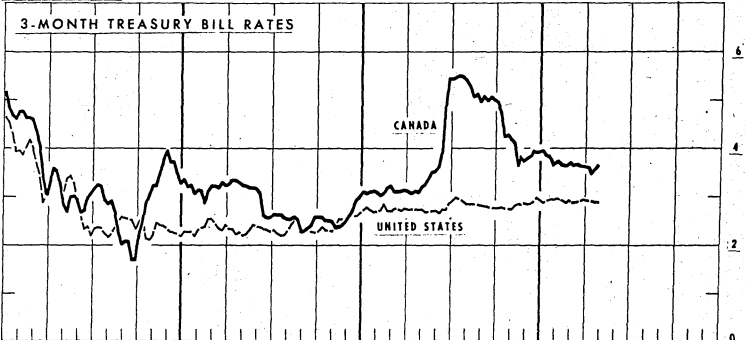
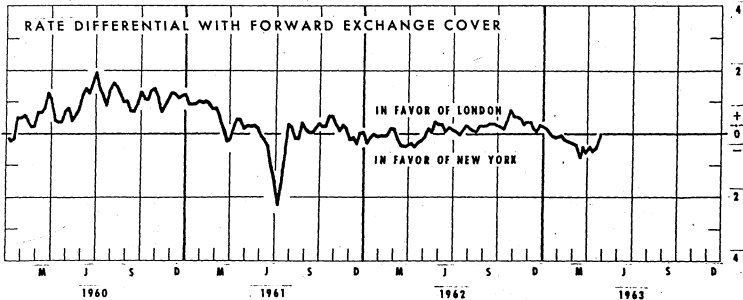
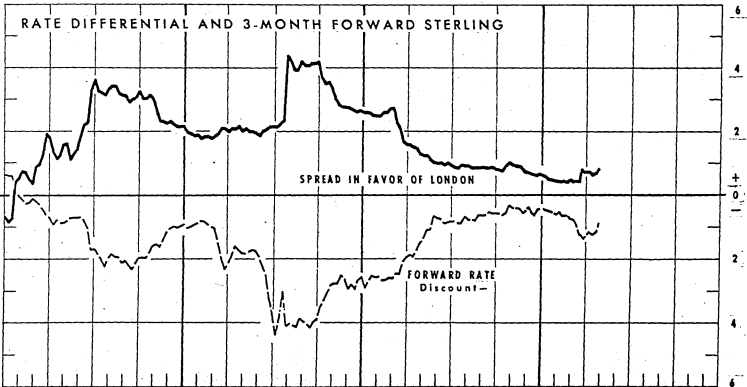
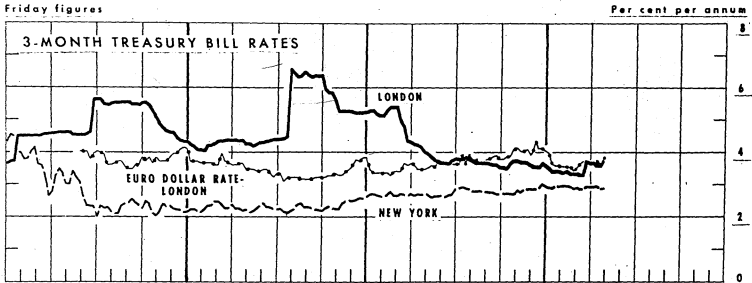


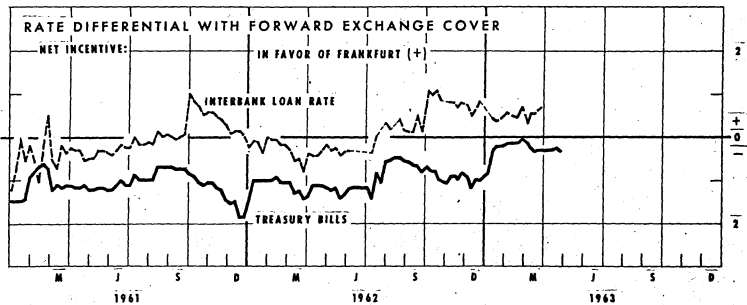
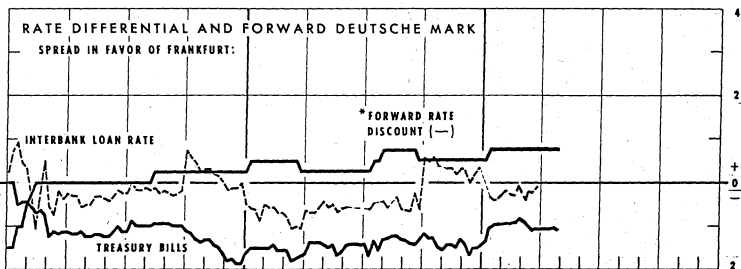
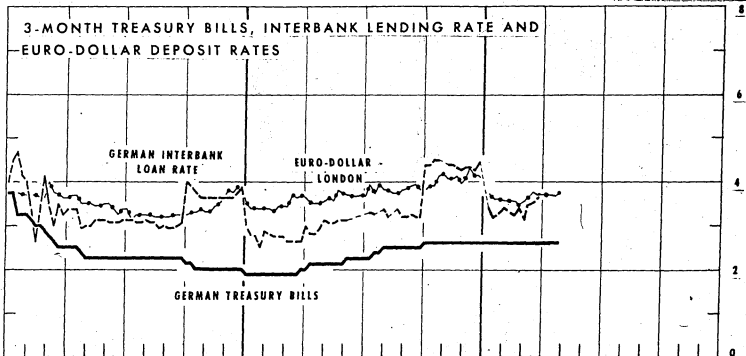
Chart 2
INTEREST ARBITRAGE, NEW YORK/LONDON



INTEREST ARBITRAGE FOR GERMAN COMMERCIAL BANKS

Friday figures

Per cent per annum



* Note: Special forward rate available to German commercial banks.

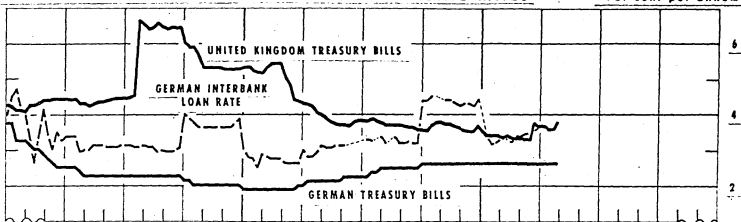
Chart 4

INTEREST ARBITRAGE, FRANKFURT / LONDON

Friday figures

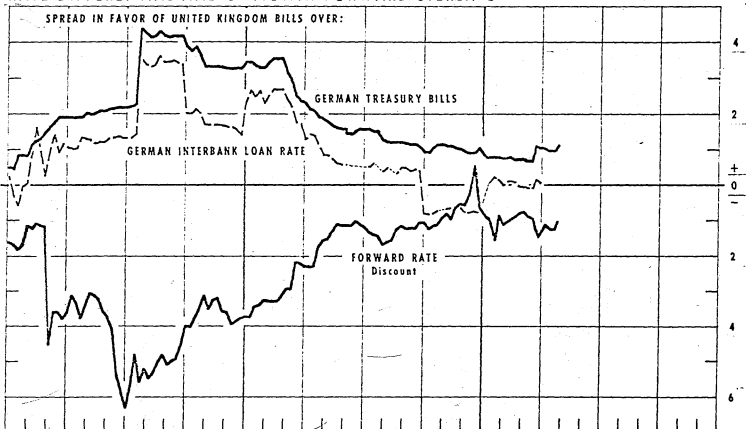
3-MONTH TREASURY BILLS AND INTERBANK LENDING RATES

Per cent per annum



RATE DIFFERENTIAL AND 3-MONTH FORWARD STERLING

SPREAD IN FAVOR OF UNITED KINGDOM BILLS OVER:



RATE DIFFERENTIAL WITH FORWARD EXCHANGE COVER

NET INCENTIVE OF UNITED KINGDOM OVER:

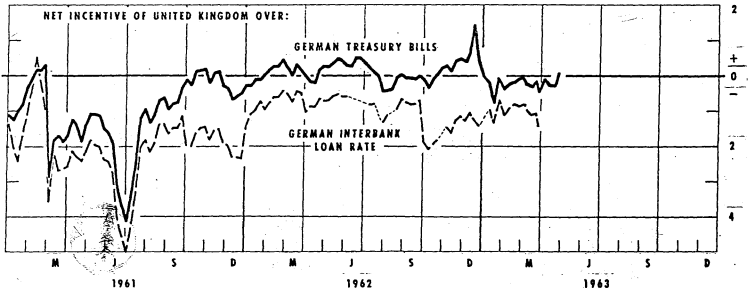
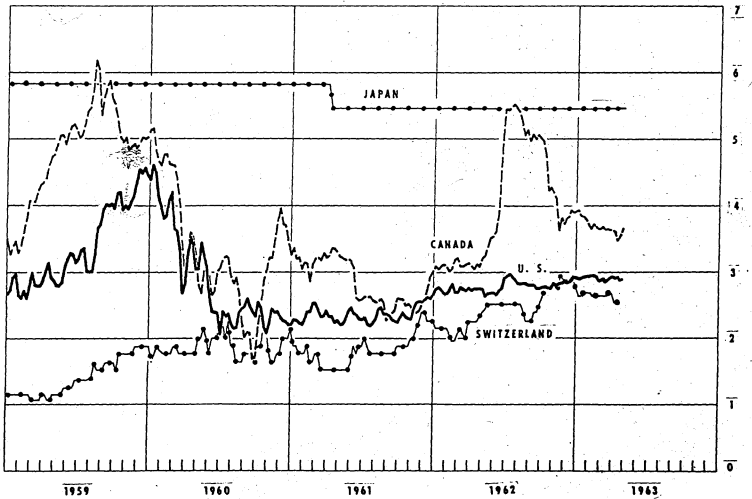
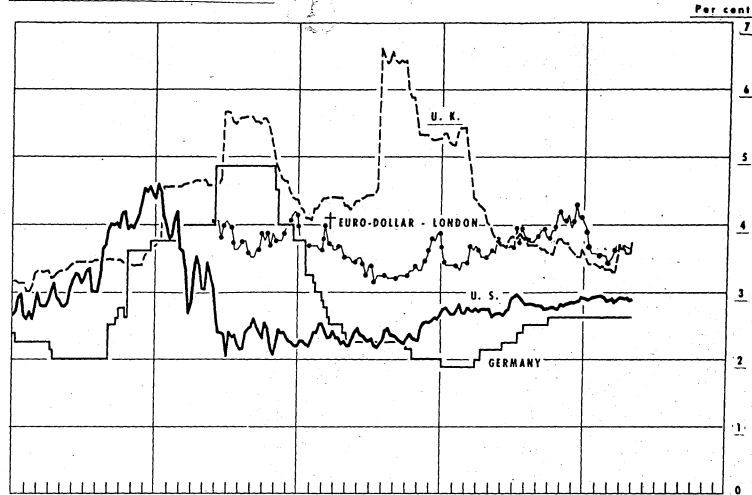


Chart 5

SHORT-TERM INTEREST RATES *



* 3-month treasury bill rates for all countries except Japan. (3-month interbank deposit rate) and Switzerland (3-month deposit rate).
 † 3-month rate for U. S. dollar deposits in London.

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Chart 6

LONG-TERM BOND YIELDS

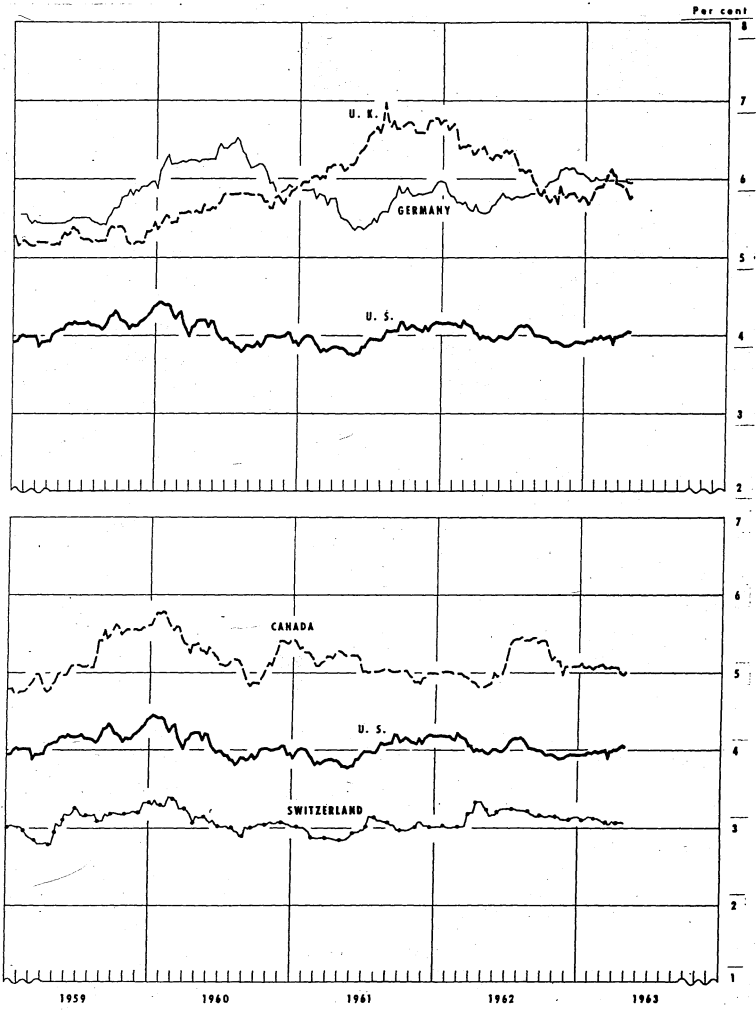
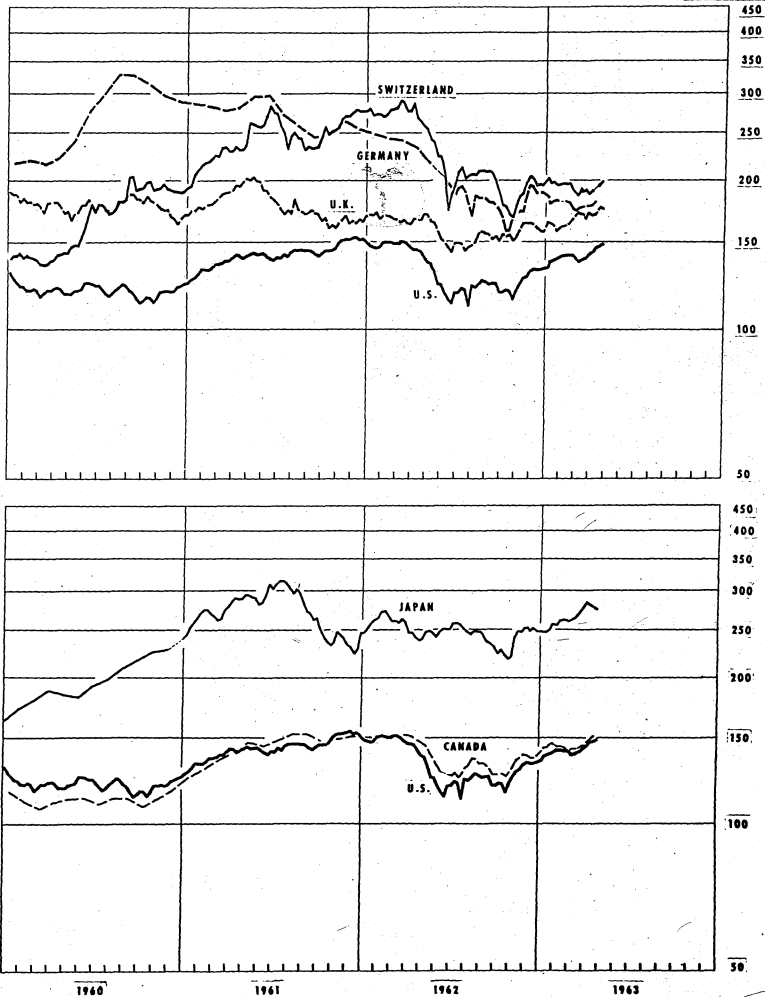


Chart 7
INDUSTRIAL STOCK INDICES*

1958 = 100
Ratio scale



*Note: Japan: index of 225 industrial and other stocks traded on the Tokyo exchange.

16

Chart 8
SPOT EXCHANGE RATES - MAJOR CURRENCIES AGAINST U.S. DOLLAR

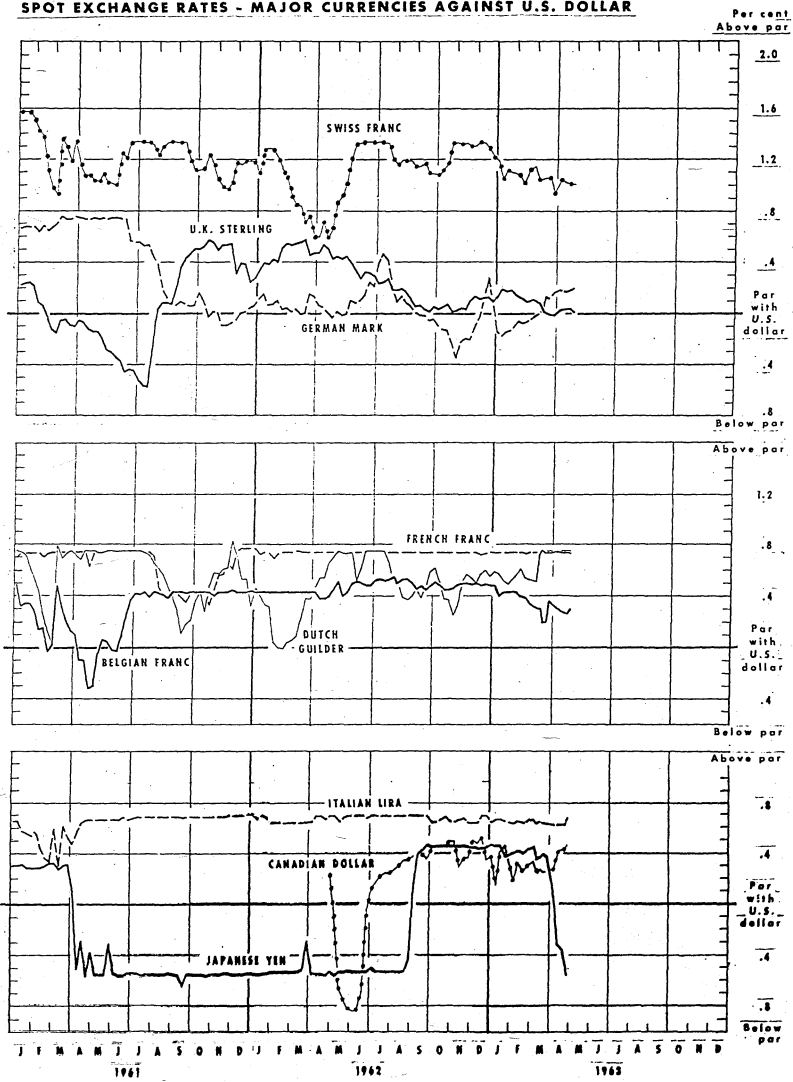


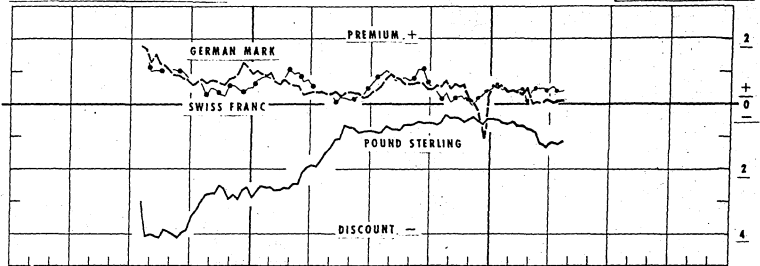
Chart 9

3-MONTH FORWARD EXCHANGE RATE

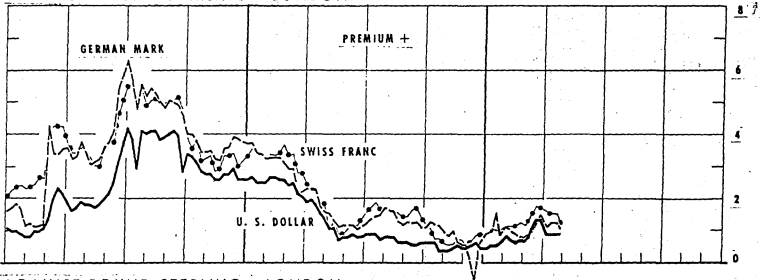
Friday figures

AGAINST U. S. DOLLARS

Per cent per annum



AGAINST POUND STERLING - LONDON



AGAINST POUND STERLING - LONDON

